

## Items of Interest for 2007

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### Lower Tax Rates for 2007

For 2007, the new tax rates range from 2.59% to 4.54%.

### The Standard Deduction is Indexed for Inflation

For 2007, the standard deduction for a single taxpayer or a married taxpayer filing a separate return has increased from \$4,247 to \$4,373. The standard deduction for a head of household or a married couple filing a joint return has increased from \$8,494 to \$8,745.

### New Subtraction for Reservists and National Guard Members

Starting with 2007, a member of the reserves or the National Guard may subtract compensation received for active service as a reservist or as a National Guard member, including pay received for weekend or two-week training periods. A taxpayer may subtract the amount of compensation received for active service as a reservist or as a National Guard member to the extent included in Arizona gross income.

### New Refund Check-off for the Veterans' Donations Fund

Taxpayers may now give some or all of their refunds to the Veterans' Donations Fund. Taxpayers may also give more than their entire refund. Gifts to the Veterans' Donations Fund may be used for veterans in Arizona.

### Dollar Limit of Clean Elections Fund Tax Credit Increased

The Secretary of State adjusted the various Clean Elections Act dollar amounts. The maximum allowable amount for purposes of the Clean Elections Fund Tax Credit is now 20% of the tax liability or \$610 (\$1,220 for married couples filing jointly) whichever is greater.

### New Credit for Investment in Qualified Small Business

A taxpayer may qualify for this credit if the taxpayer made an investment in a qualified small business. Use Form 338 to figure this credit.

### New Credit for Grey Water Conservation Systems

An individual taxpayer may qualify for this credit if the taxpayer installed a qualifying water conservation system in the taxpayer's residence located in Arizona. Use Form 339 to figure this credit.

### Application of the Commercial Solar Energy Credit Expanded

The credit may now be claimed for solar energy devices installed for any nonresidential application, not just for commercial or industrial purposes. Additionally, a taxable entity or an entity exempt from tax under Chapter 12 of Title 43 may transfer the credit to a third party organization that either installed, developed or financed the solar energy device placed in service during the taxable year. See Form 336 for more information.

### Change to Credit for Motion Picture Production Costs

A taxpayer may now claim the credit for the production of

commercials or music videos. Additionally, a taxpayer must now receive pre approval from the Arizona Department of Commerce prior to incurring production costs. See Form 334 for more information.

### Credit for Taxes Paid to Another State Expanded

Changes made to Arizona law may allow a taxpayer to claim a credit for taxes paid to another state if the taxpayer was an Arizona resident who is also considered to be a resident of another state under the laws of that other state. Use Form 309-D if you are an Arizona resident and you are also considered to be a resident of another state under the laws of that other state. See Form 309-D for more information.

### New Credit Forms for Credit for Taxes Paid to Another State or Country

In *Stearns v. Arizona Department of Revenue*, 212 Ariz. 333, 131 P.3d 1063 (App. 2006), the Arizona Court of Appeals overruled the department's interpretation of the formula for calculating the credit for taxes paid to another state. The department's former method of calculating the credit was based on adjusted gross income. Under the court's decision, "a resident taxpayer's 'taxable income' forms the denominator of the tax credit" and "the numerator of the fraction, which consists of 'income subject to tax' in both the other state and Arizona, is equivalent to that portion of the out-of-state income that is taxable in both states." *Stearns* at 335-36, 131 P.3d at 1065-66. To reflect the new formula that the *Stearns* decision requires, the department has developed new forms.

### Form 309-R Resident Credit for Taxes Paid to Another State or Country

Use Form 309-R to figure your credit if you are a full-year Arizona resident filing Form 140, you have source income from another state and you qualify to claim the credit. See Form 309-R for more information.

### Form 309-PY Part-Year Resident Credit for Taxes Paid to Another State or Country

Use Form 309-PY to figure your credit if you are a part-year Arizona resident filing Form 140PY and you qualify to claim the credit. See Form 309-PY for more information.

### Form 309-NR Nonresident Credit for Taxes Paid to Another State or Country

Use Form 309-NR to figure your credit if you are a nonresident of Arizona filing Form 140NR and you qualify to claim the credit. See Form 309-NR for more information.

### Arizona Form 328 (NEV Credit) Discontinued

Since taxable year 2006 was the last year for which a NEV credit carryover could be claimed, Arizona Form 328 has been discontinued.

### Amended Return Requirements Changed

When a taxpayer amends the federal return for any year, the taxpayer must now file Arizona Form 140X within 90 days of the final determination of the IRS rather than within 90 days of the filing of the federal return.